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FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 7462
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS SECTION 01 OF 04 MEXICO 003080

SIPDIS

US MISSION GENEVA

SENSITIVE
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SECSTATE FOR A/S SHANNON AND DAS JACOBSEN
SECSTATE FOR WHA/MEX, WHA/ESP, EB/TPP
USDOC FOR 4320/ITA/MAC/WH/ONAFITA/GWORD
TREASURY FOR IA (ALICE FAIBISHENKO)
SECSTATE PASS TO USTR (EISSENSTAT/MELLE/SHIGETOMI/VETTER)
SECSTATE PASS TO FEDERAL RESERVE (CARLOS ARTETA)
USDA FOR FAS/ONA
NSC FOR DAN FISK
GENEVA FOR USTR/SHARK

E.O. 12958: N/A

TAGS: [ERTD](#) [ECON](#) [MX](#)

SUBJECT: MEXICO COMMITTED TO SUCCESSFUL TRADE RELATIONSHIP,
BUT WORRIED ABOUT DOMESTIC POLITICS

SUMMARY

1. (SBU) The Calderon administration recognizes the vital economic role played by a bilateral trade relationship that is, on the whole, quite healthy. Nonetheless, Mexican officials are worried about the political implications of a growing perception in Mexico that NAFTA implementation is a one-way street and used a recent USTR visit to call for clear signals on cross-border trucking, tuna, and avocados that would counter this perception. USTR reps stressed the need for full Mexican NAFTA implementation and highlighted the importance of progress on specific U.S. concerns such as access to the conformity assessment sector, broadcasting, and intellectual property rights (IPR). GOM officials also raised their concerns about MexicoQs, and North AmericaQs, slipping global competitiveness and discussed ways to improve regional competitiveness. End summary.

SETTING

2. (SBU) Assistant U.S. Trade Representative for the Americas Everett Eissenstat and USTRQs Director for Mexico and NAFTA Affairs Kent Shigetomi had meetings with Mexican officials from the agriculture ministry (SAGARPA), the economics ministry (ECONOMIA), and the Office of the Presidency (PRESIDENCIA) during a June 4 visit to Mexico City. They also met with leaders of the American Chamber of Commerce. Embassy reps from the Econ, FCS, and FAS sections also took part.

SAGARPA: Hogs, Rice, Dairy, Corn, Beans

4. (SBU) Graciela Aguilar, SAGARPAQs Chief of Support and Services for Agricultural Trade, described the pressure she is getting from MexicoQs small pork producers for protection from U.S. competitors. She said trade remedies were not the answer and that SAGARPA will instead hand out

emergency subsidy payments to help them deal with higher feed prices and increased competition. Not so with rice. Mexico is preparing to request WTO consultations with the U.S. regarding our commodity supports for rice. She said that if the pending U.S. Farm Bill is not improved in this regard, Mexico will have a strong WTO case that it expects to win. She said the goal would be to push the U.S. toward a more WTO-consistent approach. She said Mexico would pursue this case alone, adding that it had rejected an offer of counsel from the law firm that represented Brazil in its cotton case against the U.S., and which had recommended bringing along the same coalition of member plaintiffs.

15. (SBU) Aguilar then turned to the U.S. dairy market, which she termed a Qconfusing mess.Q She said Mexico wanted a working group on dairy issues because the pressing issues are not related to either tariffs or sanitary concerns. Three big Mexican dairy producers want to export Grade A milk and milk products (including cheese) to Mexican communities in the U.S., but differing U.S. state rules and lack of clear guidance from the Food and Drug Administration continue to stymie their efforts and encourage smuggling across the border of low-quality (and potentially unsafe) Mexican cheeses. She said Mexico is not currently planning to file a WTO dairy case, but is considering this as an eventual option if it cannot get access through talks. While recognizing the peculiarities of the U.S. dairy market, AUSTR Eissenstat warned that even WTO victories do not always bring about the plaintiffQs original desired result. He said he would inform relevant USG authorities of MexicoQs concerns.

16. (SBU) In contrast to the corn shortage and price hikes

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that Mexico experienced earlier this year, Aguilar predicted that there will be a glut of white corn at the end of 2007 and a likely drop in prices. As a result, SAGARPA is planning to subsidize the export of 250,000 metric tons of corn, mostly to other Latin countries (these shipments will receive traditional export subsidies) but also including 60,000 metric tons to Canada and the U.S. (these shipments will receive transportation subsidies). Aguilar foresees a future in which Mexican corn producers become increasingly oriented toward export markets, predicting a pattern of bilateral corn trade keyed to our two countriesQ different harvest schedules and varieties (i.e., white corn for human consumption versus yellow corn for feed). Aguilar noted how MexicoQs poor transportation infrastructure balkanizes the countryQs corn market, leading to outcomes that are irrational from a national perspective. This is exacerbated, she said, by the proliferation of small, informal tortilla makers, who are inefficient and usually do not even pay taxes. The stagnant demand for tortillas (consumption is very price inelastic) also is a factor. She said Mexico wants to move toward less trade-distorting supports for corn farmers, i.e., from price supports to payments based on the area cultivated. SAGARPAQs Coordinator for International Affairs, Victor Villalobos, noted that SAGARPA will work with USDA in a technical assistance project for corn farmers in the state of Mexico, and another one aimed at converting bean farmers to other crops in the state of Zacatecas. Aguilar said these sorts of projects would help deflect criticism from Mexican farmers who complain about the lack of an explicit development component in the NAFTA and smooth the transition to free trade in these products next year.

ECONOMIA

17. (SBU) The USTR delegation and emboffs subsequently met with Beatriz Leycegui, the Sub-Secretary for Trade Negotiations at ECONOMIA, Jorge Amigo, the Director General

of MexicoQs Industrial Property Institute (rough equivalent of U.S. Patent and Trademark Office), Ken Smith Ramos, ECONOMIAQs Director General for Negotiations, staff from ECONOMIAQs regulatory affairs directorate, and other trade officials. Leycegui gave an overview of MexicoQs recently unveiled trade policy, which has three main pillars: 1) successful conclusion of the Doha Development Agenda trade talks; 2) full and final implementation of all NAFTA obligations; and 3) increased integration with the rest of the Hemisphere to better face rising competition from Europe and Asia.

ECONOMIA: WHO LOVES NAFTA MORE?

18. (SBU) With regard to NAFTA, Leycegui highlighted the negative impact on trade ties of the recent U.S. federal court decision against Mexican tuna, the ongoing attempts by the state of California to restrict imports of Mexican avocados, and continuing delays in the implementation of cross-border trucking. Trucking delays in particular have the potential to complicate MexicoQs implementation of free trade in the sensitive agricultural sectors of corn, beans, milk, and sugar at the start of next year. She said the new Mexican Congress has a strong agricultural lobby, and she is scared of a trade backlash based on a growing Mexican perception that the U.S., while insisting that Mexico comply with its NAFTA obligations, is not committed to doing the same. Leycegui said that a failure to resolve these issues could lead Mexico to file more WTO cases.

19. (SBU) AUSTRISSenstat affirmed the AdministrationQs commitment to honoring its NAFTA commitments, noting that the roadblocks were being erected either by the Congress or

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courts. He said that we have likely seen the full extent of legislative action on the trucking pilot program, and said he was reasonably optimistic it would begin soon. He described the AdministrationQs disappointment with the 9th Circuit CourtQs ruling on dolphin-safe certification for Mexican tuna and said the USG is considering next steps. He also raised areas in which Mexico was impeding market access to U.S. firms in violation of NAFTA obligations, highlighting Mexican attempts to impose extraterritorial standards on U.S. tequila products, the two-year struggle of Underwriters Laboratory (UL) and Intertek to gain permission to operate in MexicoQs conformity assessment sector, and the legal harassment faced by GE/NBC in trying to enter the television content market. Eissenstat pointed out that the executive branch of the Mexican government had the full authority necessary to resolve these issues. The Mexican side responded that the GOM had worked very hard to resolve the problems faced by UL and Intertek, but those two companies were simply not willing to compromise. Eissenstat said he would check back with them. On broadcasting, Leycegui pointed out ECONOMIA per se is not responsible for deciding these sorts of issues, which are handled by the independent Federal Telecommunications Commission (COFETEL). Eissenstat also raised MexicoQs rampant piracy and counterfeiting, and encouraged stronger cooperation via the Security and Prosperity Partnership (SPP) working group on this issue. Jorge Amigo said he would like to see MexicoQs National Agreement on the Protection of IPR linked to the SPP process. After raising U.S. concerns about a precipitous drop in U.S. exports of pistachios to Mexico (which ECONOMIA said it would investigate), Eissenstat underscored NAFTAQs huge net benefits for both Mexico and the U.S. and said the two sides needed to focus on the positive. He and Leycegui discussed possible deliverables for the August NAFTA ministerial, including a consumer electronics initiative, an exchange of letters for implementing a third set of changes to the NAFTA rules of origin, and others.

110. (SBU) Leycegui said the Mexican private sector is not enthusiastic about new free trade agreements (FTA), preferring to focus on taking full advantage of the many Mexico has already entered into, but that President Calderon and President Garcia recently committed to finalizing the Peru-Mexico deal that has been under negotiation for some time. In view of Mexico's (and North America's) falling share of international trade, she said everyone needed to do a better job of demonstrating the concrete benefits of trade to their private sectors. She also said greater hemispheric economic integration is essential to improving the region's competitiveness, and for that reason Mexico is concerned about the flat-line pulse of the Free Trade Area of the Americas initiative. Eissenstat summarized the state of U.S. regional trade policy, emphasizing the current focus on winning congressional approval for our bilateral FTAs with Peru, Panama, and Colombia. He said it would be impossible to make progress on a regional integration strategy if Congress does not renew broad Trade Promotion Authority, which expires at the end of this month. Until then, quiet discussions of ideas for further integration were the best approach.

PRESIDENCIA Q COMPETITIVENESS AGENDA

111. (SBU) The USTR team's final meeting was with Felipe Duarte, a top official in PRESIDENCIA's Economic Cabinet. Duarte said that Mexico's macro-economic stability has been satisfactory in recent years, but its growth rate has not. Trade alone is not the panacea, and Mexico is under the gun to show that responsible economic policies can deliver

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clear progress in reducing poverty to counter the negative regional trend toward statist approaches. Duarte described President Calderon's Competitiveness Agenda, which aims at the long-term goals of a stronger education system, increased capacity to absorb technology, and more innovation. In the short-term, the Agenda focuses on more efficient customs procedures, smoother logistics, and greater market access for Mexican goods. He noted that our two countries must cooperate bilaterally and under the SPP to improve security and facilitate trade across our common border, and said that cross-border trucking should be viewed in this context, as an important ingredient to more efficient movement of goods within North America. He asserted that superior logistics capacity was one of the key advantages enjoyed by Asia's more dynamic economies.

112. (SBU) Staying on the trucking theme, he also echoed Sub-Secretary Leycegui's request for visible signs of U.S. commitment to implementing its more difficult NAFTA obligations, noting the growing perception here that Mexico is the only one doing the heavy lifting. Duarte also recognized the growing anti-trade sentiment in the U.S. due to our huge current account deficit and asked if that could pose problems for the bilateral relationship. Eissenstat replied that most economists attribute our deficit to macro-economic factors, not trade, but in the world of politics the reverse belief has a large following. Fortunately for Mexico, China is taking most of the political flak on trade from protectionists in the Congress and elsewhere. He asserted that the Administration remains committed to free trade, recognizing as it does that economic growth among our partners is key to ensuring our own long-term prosperity. Eissenstat said that the overall U.S.-Mexico trade relationship is in excellent shape, and we have a good track record of dealing pragmatically with the problems that crop up.

113. (SBU) Again echoing Leycegui, Duarte said we now need

to look at how North America and the Western Hemisphere fit into today's globalized world, and that Mexico would appreciate any U.S. ideas regarding economic integration in the Americas. Eissenstat expressed willingness to work together on regional competitiveness, but advised taking the process one step at a time. He also said the U.S. stands ready to lend its assistance to Mexico as it works to implement its domestic Competitiveness Agenda, whether on telecoms issues, intellectual property rights, competition policy, biotech, or alternative energy.

GARZA